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Daniel Fiott*

The Multiannual Financial Framework and European Defence

Thirteen billion euros. This amount of money is perhaps of little significance when taken as a stand-alone item in the next EU Multiannual Financial Framework (MFF). But in light of the fact that the European Commission has requested this amount for defence research and capability development, it becomes much more important. In a radical break from the past, the EU is about to make sizeable investments in defence. As illustrated in Figure 1, the European Defence Fund (EDF) requires 13 billion euro from 2021 to 2027 to enhance the EU's defence capabilities and support the European defence industry. Once this financial support comes online, the EU will be able to provide financial incentives for EU defence capability development through an investment of 8.9 billion euro. An additional 4.1 billion euro will ensure that the Union will, in its own right, become the fourth largest investor in defence research in the EU. What is more, under the EU's plans to

enhance military mobility in Europe, the Commission has requested a financial envelop of 6.5 billion euro under the next MFF to develop and adapt Europe's transport networks for civil and military purposes.

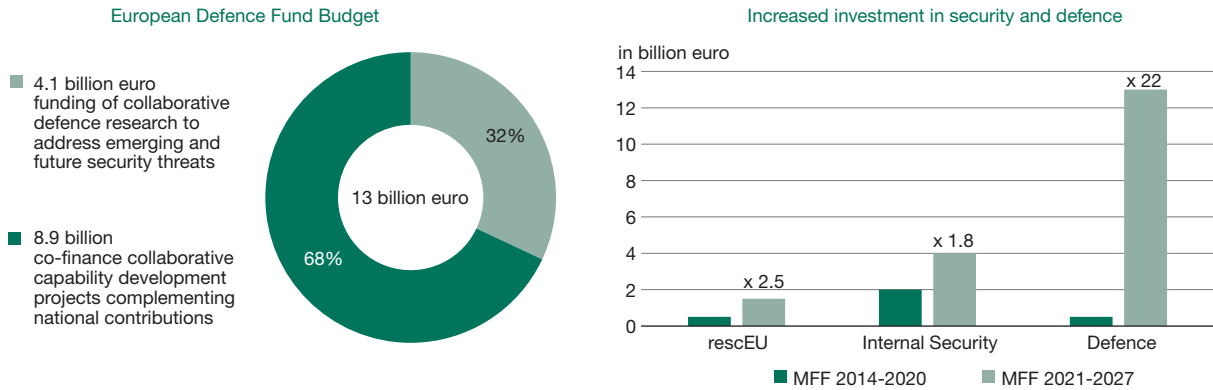
These investments in security and defence represent new terrain for the EU. They have been proposed during a challenging geopolitical situation marked by a deterioration of Europe's overall security and the United Kingdom's decision to leave the EU. In fact, it is quite something that the European Commission has felt confident enough to propose its defence initiatives given that the EU's overall gross national income (GNI) will be smaller after Brexit – the MFF will represent just 1.1% of the EU27's total GNI.¹ Overall, proposed investments in security and defence

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* The ideas expressed in this article do not necessarily reflect the views of the EU Institute for Security Studies or the European Union.

1 M. Parry, M. Sapala: 2021-2027 Multiannual Financial Framework and New Own Resources: Analysis of the Commission's Proposal, European Parliamentary Research Service (EPRS), PE 625.148, July 2018, available at [http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625148/EPRS_IDA\(2018\)625148_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625148/EPRS_IDA(2018)625148_EN.pdf).

Figure 1
Planned security and defence investments, MFF 2021-2027



Source: European External Action Service: EU budget 2021-2027 invests more and better in external action, security and defence, News stories, 2 May 2018.

will represent 2.1% of the overall MFF package for 2021-2027, which compares to 2.7% for border management and migration and 9.6% for the neighbourhood and the world.² For the first time, security and defence will be a separate heading in the next MFF even though Article 41.2 of the Treaty on European Union (TEU) prohibits the use of the EU budget for defence reasons.

It is worthwhile asking how it comes that security and defence have emerged as important elements of the MFF and for EU integration more broadly. It is also interesting to show how it has been possible to justify investments in defence research and capability development despite the Article 41.2 TEU prohibition. To this end, this article focuses on the financial proposals that have been made by the Commission and highlights the drivers and initiatives behind them.

New developments

The publication of the EU Global Strategy³ in June 2016 came at a watershed moment for the EU and its Common Security and Defence Policy (CSDP). The Strategy had to grapple with a rapidly changing global geopolitical context including the likely election of an American president who would work against the multilateral order the EU supports. The Strategy would also have to chart a way forward on regional security challenges such as stability in the Middle East and North Africa following the ‘Arab

Spring’ that began in 2011 and Russia’s illegal annexation of Crimea, Ukraine, in 2014. Added to these extremely challenging issues was the UK’s departure from the EU (‘Brexit’). In fact, the EU Global Strategy was published only a few days after the 26 June UK/EU referendum and, consequently, it proclaimed that the ‘purpose, even existence, of our Union is being questioned’.⁴

Yet aside from Brexit, the EU has recognised the arc of instability all round the Union and a range of threats have no respect for borders or EU territory.⁵ In the East, hybrid threats in the form of election tampering, cyberattacks, disinformation, media manipulation, energy supply leveraging and espionage threaten the resilience of EU Member States. To this end, Europe has set up a centre of excellence on hybrid threats to be in a better position to detect vulnerability, and the EU has set up bodies to counter disinformation campaigns by Russia (e.g. East StratCom). In the South, border management and migration continue to present a challenge for the EU, and terrorist threats emanating within Europe and on its borders remain a cause for concern.

The transatlantic relationship has also given rise to questions about the EU’s dependency on the US and NATO for its security. The current US administration is reexamining the multilateral order that it has supported for decades. Washington is questioning long-held principles such

2 Ibid., p. 4.

3 Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union’s Foreign and Security Policy, European Union Global Strategy, June 2016, p. 3, available at https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf.

4 Ibid.

5 S. Blockmans: The Obsolescence of the European Neighbourhood Policy, Centre for European Policy Studies (CEPS), Brussels 2017, Rowman & Littlefield, available at <https://www.ceps.eu/system/files/Blockmans%20-%20Obsolence%20of%20the%20European%20Neighbourhood%20Policy.pdf>.

as free trade and multilateralism. The US is also talking about its strategic rivalry with China and it is reneging on non-proliferation mechanisms such as the Intermediate-Range Nuclear Forces (INF) Treaty. President Trump has also tested the NATO alliance by calling for greater defence spending from European partners and failing to categorically pledge his support for Article 5 of the Washington Treaty.⁶ He has also pulled the US out of the Joint Comprehensive Plan of Action (JCPOA) on Iran and the Paris Climate Agreement.

These actions have given the EU pause for thought about its own security and defence policy. It is true that the EU has deployed 34 military and civilian missions and operations to its near and more distant neighbourhood (e.g. Operation Sophia in the Mediterranean or the EU Training Missions to the Central African Republic, Mali and Somalia). However, there are claims that the EU needs to go further on command and control, defence planning, enhancing defence cooperation between EU Member States, supporting the defence industry and building the capacity of its partners. At the highest political level, there is growing acknowledgement that the EU needs greater strategic autonomy or 'European sovereignty' in security and defence.⁷ This rhetoric combined with the EU facing very real security challenges has meant that security and defence is attracting political and financial support, and it is becoming a spearhead for EU integration efforts, too.

Financing EU defence

Current thinking in the EU says that post-2020 security challenges are likely to worsen and proliferate. A large part of the EU's strategy is to ensure that the Union has the financial tools required to meet future threats. In security and defence, the bulk of the EU's financial response will come in the form of a 13 billion euro envelop to invest in defence research and defence capability development (see Figure 1). The idea behind this European Defence Fund (EDF) is that the EU can help fund defence capability prototypes in such a way as to incentivise cooperation between EU Member States. Until now, the norm has been for EU Member States to pursue a largely national approach in capability development but this has led to market fragmentation and the duplication

of weapon systems. Therefore, no financial support will be released to EU Member States unless they cooperate with at least two or more fellow members representing a fair geographical (i.e. large and small Member States) and industrial (i.e. prime firms, midcaps, SMEs and research institutes) distribution. What is more, in order for the EU to maintain its defence research and technological edge, the Commission is proposing that five percent (or 650 million euro) of the total 13 billion euro be used to fund disruptive technologies.

The EDF is designed to avoid falling foul of Article 41.2 TEU by using a different legal basis that is geared toward enhancing the EU's industrial innovation and competition rather than boosting the EU's foreign, security and defence activities. Article 41.2 TEU states that operating expenditure for the Common Foreign and Security Policy (CFSP) shall be charged to the Union budget, "except for such expenditure arising from operations having military or defence implications and cases where the Council acting unanimously decides otherwise". However, the EDF is founded on a different legal basis not associated with the CFSP but on Articles 173 and 182 of the Treaty on the Functioning of the EU (TFEU) which relate to the EU's economic activities. Article 173 states that the EU "shall ensure that the conditions necessary for the competitiveness of the Union's industry exist" including dealing with issues such as structural adjustment, SMEs and entrepreneurship, cooperation innovation and research and technological development. On this basis, the EDF can address the EU's competitiveness of the defence industry while also helping the EU become a more effective defence actor.

The EDF is not some future pipe dream, even though the 13 billion euro request is destined for investment over the 2021-2027 period. Indeed, on 28 October 2016, the European Defence Agency (EDA) initiated a pilot project on defence research with a 1.4 million euro investment in sensor and surveillance equipment, detect and avoid systems for unmanned aerial vehicles (UAV), and a demonstrator for UAV swarm technologies. Building on this pilot project, and seeking to lay the foundations for the EDF in the post-2020 period, the European Commission and EDA initiated a Preparatory Action on Defence Research (PADR) in 2017. The PADR is supported by a 90 million euro investment until the end of 2019 and current projects include a maritime situational awareness demonstrator, advanced soldier camouflage and communications systems and strategic foresight technologies. Furthermore, for defence capability development, the Commission will invest 500 million euro from 2019 to 2020 under the European Defence Industrial Development Programme (EDIDP) – another preparatory project to set the ground

6 Trump tells NATO leaders to increase defense spend to 4 percent, Reuters, 11 July 2018, available at <https://www.reuters.com/article/us-nato-summit-trump-spending/trump-tells-nato-leaders-to-increase-defense-spend-to-4-percent-idUSKBN1K12BW>.

7 F. Cazenave: Emmanuel Macron et Angela Merkel signent la déclaration de Meseberg pour reformer l'Europe, Ouest-France, 19 June 2018, available at <https://www.ouest-france.fr/europe/Allemagne/angela-merkel/emmanuel-macron-et-angela-merkel-signent-ensemble-la-declaration-de-meseberg-5833701>.

work for post-2020 investments in capability development.

Of course, not all of the EU's recent initiatives on security and defence are pegged to the MFF, and frameworks such as Permanent Structured Cooperation (PESCO) are a way of stimulating cooperation between EU Member States. Agreed at the end of 2017, PESCO contains two elements: first, a set of twenty binding commitments ranging from promising to increase defence spending to agreeing to cooperate on crisis management operations and missions; and second, a number of capability projects that are designed to enhance the EU's strategic autonomy.¹ There are 34 PESCO projects at present ranging from a cyber-response team to an EU medical hub and the EuroDrone and co-basing initiatives. PESCO is subject to an annual review to judge whether the 25 PESCO members (i.e. all EU Member States minus Denmark, Malta and the UK) are abiding by their commitments and whether the PESCO projects are progressing. Supporting PESCO is another initiative called the Coordinated Annual Review on Defence (CARD), which is designed to lead to greater transparency in national defence planning in the Member States and to identify future opportunities for cooperation once governments have announced their defence spending and capability plans.²

As one of the more ambitious PESCO projects, military mobility is seen as a way to enhance cross border movements of troops in Europe. The US military and NATO have long complained that in Europe it is extremely difficult to move troops and equipment across borders because of a range of infrastructural, regulatory and legal issues. Such issues are related to the transportation of hazardous materials across European borders, customs checks for military personnel and equipment, legal jurisdictions for criminal proceedings and infrastructure load bearing and connectivity. The EU has responded to US and NATO concerns by developing an action plan on military mobility. The plan will see the EU develop a number of policies that are designed to iron out regulatory and legal issues, but also invest 6.5 billion euro in dual-use transport infrastructure as a way of modernising or developing railway lines, roads and other transport routes and nodes. Military mobility is not only a good example of PESCO's worth but it is also a major element in EU-NA-

TO joint efforts to enhance cooperation. In keeping with the spirit of the EU-NATO joint declarations, for example, NATO has been involved in discussions about the EU's long-term budgetary priorities in security and defence, including military mobility.³

The EU has also developed a number of initiatives that will enhance its operational effectiveness, but these will still not be directly relevant to the financial commitment sought under the MFF. For example, the EU's first command and control centre oversees three non-executive EU military training missions to the Central African Republic, Mali and Somalia. The Military Planning and Conduct Capability (MPCC) is attached to the European External Action Service and prior to its creation, each of the missions mentioned had their own individual command structures, which was deemed inefficient.⁴

Additionally, the EU has sought to improve the financing of CSDP missions and operations through the creation of a European Peace Facility (EPF). At present, a range of individual initiatives are designed to assist the EU during CSDP deployments: the 'Athena Mechanism', which funds up to 10% of missions and operations from common costs; and the African Peace Facility, which has utilised 2.7 billion euro to support the work of the African Union and other efforts in Africa since 2004. The EPF is designed to draw these existing tools together to assist with the defence implications of the Common Foreign and Security Policy through a 10.5 billion euro budget. Importantly, the EPF will not be drawn from the MFF and it is considered a new off-budget tool that will allow the EU to increase support under the Athena mechanism (from an average 10%, potentially up to 30%) and help the EU's military training missions with basic supplies and equipment.

Future challenges

EU investments into EU security and defence are not free from politics and the current wave of populist and extreme political movements in Europe are – in one way or another – relevant to debates about such investments. For example, the forthcoming European Parliament elections in May 2019 could reinstate parliamentarians that are opposed to EU defence investments on the grounds

1 D. Fiott, A. Missiroli, T. Tardy: Permanent Structured Cooperation – What's in a Name?, EUISS Chaillot Paper No. 142, 2017, European Institute for Security Studies, available at <https://www.iss.europa.eu/content/permanent-structured-cooperation-what's-name>.

2 D. Fiott: EU Defence Capability Development – Plans, Priorities, Projects, EUISS Brief No. 6, 2018, European Institute for Security Studies, available at <https://www.iss.europa.eu/content/eu-defence-capability-development---plans-priorities-projects>.

3 H. Ojanen: Spending to Defend – NATO and the EU's New Budget, ECFR Commentary, European Council on Foreign Relations, 6 November 2018, available at https://www.ecfr.eu/article/commentary_spending_to_defend_nato_and_the_eus_new_budget.

4 M. Drent, L. Landman, D. Zandee: A New Strategy – Implications for CSDP, Clingendael Report, Netherlands Institute of International Relations, June 2016, available at https://www.rug.nl/research/portal/files/33438871/Clingendael_Report_A_New_Strategy_Implications_for_CSDP_June_2016.pdf.

of Euroscepticism and/or pacifism. This is why the European Commission, European Council and Council of the EU have been keen to attain agreement on the 2021-2027 MFF during the Austrian presidency of the Council of the EU (in its seat from July to December 2018). The idea is to have agreement on the MFF sooner rather than later so as to avoid any difficulties that may arise from having to agree on the MFF under the next legislature of the European Parliament. Although a number of populist parties and governments have called for enhanced EU security and defence efforts, there is no guarantee that the next legislature will not try to block or reframe initiatives such as the EDF.

Despite these new interesting EU initiatives, there is a need to think about long-term EU investments for its security and defence. For example, even though it is wel-

come news that the European Commission plans to invest 13 billion euro in defence research and capability development, the question of the strategic prioritisation of EU defence capabilities is salient. In short, it will be necessary to set a certain level of ambition for capability development within the fixed envelop of finance available. Questions about what capabilities the EU should invest in will be of increasing interest to EU institutions such as the Council and the Parliament, but to the public, too. By the end of the next MFF in 2027, it will be interesting to see what type of defence actor the EU has become and what capabilities it has prioritised over the intervening years. There will also be questions about what synergies have eventually been found between PESCO and the EDF, especially with regard to the types of capabilities selected for funding and how ambitious they are.